

NOTES FROM THE:

Auditor General of the Air Force



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Audit Independence

Recently, considerable discussion has ensued in audit and management circles regarding independence criteria for government audit organizations. Accordingly, this article discusses audit independence and how it applies to the Air Force Audit Agency (AFAA).

“Independence” is a key concept for the auditing profession. The Government Auditing Standards requires both the auditor and the audit organization to remain free from personal and external impairments to independence and to maintain an independent attitude and appearance. The independence standard is further defined for auditing internally (internal auditors) and auditing other entities (external auditors). I will briefly describe each and discuss their applicability.

Internal Independence

Most AFAA audit work is internal—that is, we audit Air Force organizations and provide recommendations to an Air Force client. To meet the “internal” independence standard, audit organizations must (1) report audit results, (2) be accountable to the head of the entity, and (3) be organizationally located outside staff or line management. The AFAA fully meets these standards. Our Air Force-level reports are issued to the Secretary and the Chief of Staff, and the Secretary reviews installation-level audit reports. The Auditor General reports directly to the Secretary, and the AFAA is not part of Air Force staff or line management.

External Independence

AFAA auditors are involved in external auditing when performing financial statement audits required by the Chief Financial Officers (CFO) Act. These audit results are ultimately reported outside the Air Force as part of the government-wide financial statement audit. However, one key criterion of the Government Auditing Standards potentially prohibits the AFAA from meeting the “external” independence criteria. This requirement specifies that the head of the audit organization be confirmed by, report the results of audits to, and be accountable to a legislative body. Although the AFAA does not meet this requirement, the General Accounting Office (GAO) Financial Audit Manual has established slightly more liberal “external” independence criteria for performing CFO audits. Under these provisions, the head of the audit organization may be appointed but as a practical matter cannot be removed without the direct or indirect concurrence or knowl-

edge of parties outside the agency. The AFAA fully meets that provision and the other independence criteria currently specified in GAO’s Financial Audit Manual. Accordingly, based on these criteria and significant DoD Inspector General (IG) and GAO oversight, the AFAA has been considered “externally” independent to perform the Air Force financial statement audits and issue the applicable audit opinions.

Potential Changes in Independence Criteria

The Advisory Council on Government Auditing Standards (standards setting body) is considering revisions that would further tighten the “external” auditor independence criteria. Based on the proposed changes, key GAO officials indicated they might revoke the “external” independence provisions under which AFAA performs financial statement audits. Considerable debate on the Government Auditing Standards revisions is occurring within the Advisory Council because these revisions will also affect Federal nonstatutory IGs and possibly many state and local auditors. I expect the debate will continue for quite awhile—maybe up to a couple years. The final outcome is uncertain, but the DoDIG is pushing hard to have the Service audit agencies continue to meet the independence criteria for the CFO work. Regardless of the outcome, we will likely remain heavily involved in the CFO audits. If we are not deemed as meeting the independence criteria for “external” auditors, the DoDIG could take over the opinion work with AFAA still doing most (or all) of the fieldwork. Alternatively, the DoDIG/Air Force could use a CPA firm for the opinion work with AFAA supporting a substantial amount of fieldwork. Regardless of the outcome on the “external” independence issue, I believe a heavy CFO workload will remain with AFAA.

Conclusions

The AFAA organization and internal operating procedures enable us to fully comply with the criteria for “internal” audit independence. On the other hand, debate continues as the Advisory Council on Government Auditing Standards works to define specific criteria for “external” independence. As this issue works its way to resolution, we will continue supporting the “external” financial statement audits in whatever way is most helpful to the Air Force. Additionally, we will continue providing the full range of “internal” audit services.